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DEPARTMENT OF STATE

Washington, D.C. 20520

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January 2, 1981

MEMORANDUM

TO : S/S - Peter Tarnoff

FROM : EB - Deane R. Hinton *DRH for DH*

SUBJECT: Transition Briefing Papers

Attached are the World Bank and IDA transition papers which you requested.

Attachments: a/s

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BRIEFING PAPER

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THE WORLD BANK

The Nature of US Support

The U.S. has supported the World Bank because it is an efficient aid-giving mechanism, it mobilizes non-governmental capital market resources and it fosters stability and growth in the developing world.

US commitments to the Bank are multiplied in two ways:

-- For each dollar the U.S. contributes to the Bank, other members contribute four dollars; and

-- Nine dollars of every ten subscribed to the Bank's capital are callable capital that requires no budget outlays.

The Bank plays a major role in channeling private funds to developing countries by borrowing on capital markets. Budgetary constraints on bilateral aid and large LDC financial needs due to energy import costs will add to the importance of this function in the 1980's.

The Bank has an excellent reputation, not only with financial markets (likely to be enhaced when A. W. Clausen, a banker, assumes the Presidency), but also with developing country recipients. This prestige allows the Bank, through policy advice to recipient countries and through project monitoring, to help to assure sound policies that will provide a basis for stability and growth in developing countries.

The Extent of US Participation

As of June 30, 1980, the U.S. had subscribed to 23.39 percent of the shares in the Bank and had paid in $935 million in capital. The US share of callable capital was $8.4 billion. Total capitalization of the Bank (thus its lending power) was some $40 billion. Because of its arrearages, the U.S. currently has 21.11 percent of the voting power in the Bank.

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Policy Problems

US Leadership: The main policy question related to the Bank facing the new Administration will be whether it wants to maintain the traditional US leadership role in the Bank. If so, early efforts will be needed to assure timely US subscription to the Bank's General Capital Increase (GCI). On January 4, 1980, the Bank's Board of Governors authorized an increase in the capital of the Bank totalling $40 billion. The US share of the increase would be $8.8 billion, or 22 percent. Only 7.5 percent of the subscription would be paid in, thereby requiring appropriations. Failure to take our full share of the GCI on a timely basis would not only damage US credibility in the Bank, but would also result in the loss of our unique status as the only member of the Bank able to veto charter amendments. Although we have never used the veto (requiring 20 percent of the voting power), it is an important symbol of US leadership in and commitment to the Bank.

Energy Affiliate: The communique of the Venice Summit called for the Bank to consider a new affiliate to provide additional funds to assist developing countries in developing their energy resources. The target level of lending for the affiliate would be $30 billion in FY 82-86. The primary goal would be to increase world energy supplies. Another major objective of the affiliate would be to mobilize additional OPEC funds to assist in LDC development. The latter goal will be a major consideration in designing the institutional structure of an affiliate during the next few months.

China: The participation of the People's Republic of China will require some major adjustments in Bank lending patterns. Established criteria for the distribution of Bank lending (population, level of poverty, etc.) suggest that the PRC would receive a significantly larger share of Bank and IDA money than did Taiwan. Such a realignment of lending could have major implications for traditional heavy borrowers, including India, Egypt and Pakistan.

Human Rights: Since January 1, 1977, the U.S. has opposed, through "no" votes or abstentions, nearly 100 loans (including other MDBs) on grounds of human rights. A substantial change in this policy would require changes in current legislation.

Political Issues: One of the first "political" problems facing the new Administration with regard to the Bank (and the IMF) will be the PLO observer issue. The Executive Board is scheduled to make recommendations on the observer question by March 31. Although we successfully deferred the issue at the 1980 Annual Meeting, it will be difficult to avoid an outcome permitting PLO observers under one guise or another.

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IDA REPLENISHMENT

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The International Development Association (IDA), the World Bank "soft loan window", must be replenished soon if it is to continue to provide concessional funds to the poorest developing countries, including Pakistan and Egypt. Currently only World Bank members with a GNP/capita of less than $680 are eligible for IDA loans which typically carry a .75% service charge over forty years with a ten year grace period. IDA loans authorized in recent years have been: 1978, $2.3 billion; 1979, $3.0 billion; 1980, $3.8 billion.

Our policy in IDA as in other multilateral development banks has been to negotiate the best possible package (reduced US share, moderate real growth in lending) and then actively seek prompt Congressional approval. IDA resources are replenished through negotiations among the donor countries every three years. In late 1979, negotiations on the Sixth Replenishment (IDA VI) were completed. The agreement among the donors called for a $12 billion replenishment which was to provide 5 percent annual real growth in lending over a three year period (1981-83). The U.S. share was 27 percent or $3.24 billion to be paid in fully over the three year period. Our share of IDA V was 31% ($2.4 billion); our share of IDA IV was 33 percent ($1.5 billion).

In early 1980, the Administration submitted to Congress an authorization request necessary for formal U.S. subscription for IDA VI and included the first of three contributions ($1.08 billion) in the FY '81 Foreign Assistance Appropriations request. Neither bill was finally acted upon by the 96th Congress. The Continuing Resolution on Foreign Assistance Appropriation through June 1981 provided only $20 million to cover U.S. arrears under IDA IV but no money for IDA VI. The authorization request was passed routinely by the Senate early in 1980 but was never acted upon by the House and thus died at adjournment.

The inability of the U.S. either formally to subscribe to its IDA VI share or to make its initial payment means that IDA can continue lending only through March on the basis of the present bridging arrangement negotiated among other donors. Under the replenishment agreement, other donors' contributions are conditional on the U.S. coming up with its share.

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ISSUES FOR DECISION

The New Administration will need to decide early how to handle the IDA replenishment. It will affect legislative submissions and U.S. relations with the World Bank, with developing countries heavily dependent on IDA lending (e.g. Pakistan and Egypt), and with the other donors (basically our major allies). The new Administration can expect signifcant international pressure from both IDA recipients and other donors. Decisions will be required in early 1981 on the following:

1) Authorization for IDA VI - Whether to resubmit to the new Congress a request for U.S. participation in IDA and what priority to assign to the issue. A variant on this issue is whether to seek authorization of the full U.S. share as negotiated or only a smaller amount (which would mean reopening negotiations with the other donors). Any attempt to renegotiate the painstakingly negotiated burden-sharing formula could cause major problems with the other donors.

2) Appropriations for IDA VI - A related issue is what level of appropriations to seek for the U.S. contributions to IDA VI in FY '81 and FY '82. Appropriation of an initial contribution of less than one-third of our full subscription would put us into arrears with IDA.

CONGRESSIONAL OUTLOOK

The outlook for IDA VI on the Hill is not good, given the lack of grass roots support for this type of lending. Congressional concerns on IDA include opposition to foreign aid, a general desire to cut expenditures, and some frustration over the lack of direct U.S. control over World Bank activities, which occasionally leads to problem loans (e.g. to Laos or for textile projects). Executive leadership, exercised on broad national security grounds, could carry the day, however.

Some Members of Congress are concerned that IDA VI funds might go heavily to the PRC. But the Chinese understand that, since IDA VI was negotiated before the PRC became a member of the IMF/IBRD system, they will probably have to await IDA VII to begin major soft loan drawings.

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IDA REPLENISHMENT

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Clearance: EB - DRHinton
EB/IFD/ODF - AABasora AAB
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